

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 20, 2016

Volume 9 Issue 139

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Short

## Tonight's Research Points

- Relatively strong drops from 50-day highs have consistently been followed by bounces.
- A 2<sup>nd</sup> 20-day low in volume with the market still near the upper end of its range suggests short-term bearish implications.

### *Short-term Outlook*

#### *The Bottom Line*

The bearish edge lasted just 1 day. While evidence suggests the market could go lower, it is no longer overbought. This has me basically neutral.

**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
July 20, 2016	Big drop from 50-high	1-4 days	Bullish			-2.20%
July 20, 2016	20 day low volume 2x. Close > 10 > 200	1 day	Bearish			
July 18, 2016	5 up to 50-high then 1 down day	1-10 days	Bullish	2.00%	-1.10%	-2.20%
July 18, 2016	Opex week rises 1%-2%	1-5 days	Bearish	-1.35%	0.80%	1.60%
July 15, 2016	Top 10% 10-day range pre-opex	1-4 days	Bearish	-1.20%	0.80%	1.50%
<b>Active - Long Term</b>						
July 18, 2016	5 up to 50-high then 1 down day	1-10 days	Bullish	2.00%	-1.10%	-2.20%
July 11, 2016	NASDAQ leading	int term	Bullish			
July 11, 2016	SPX 50-low to 50-high in 2 weeks	1-17 days	Bullish			
July 11, 2016	SPX 50-high breakout 90% up volume	1-35 days	Bullish			
July 1, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-4.90%	-11.70%
April 26, 2016	Golden Cross	int term	Bullish			
February 1, 2016	2 90% up days in 1 week	1-9 months	Bullish	23.10%	-6.60%	-15.10%
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
<b>Dropped Tonight</b>						
July 18, 2016	3 higher highs, lows, close. Dn close	1 day	Bullish			
July 15, 2016	Unfill gap up. 20-high. C<O	1-3 days	Bullish			
July 14, 2016	3 higher highs, lows, close. Dn close	1-4 days	Bullish	1.40%	-0.70%	-1.50%

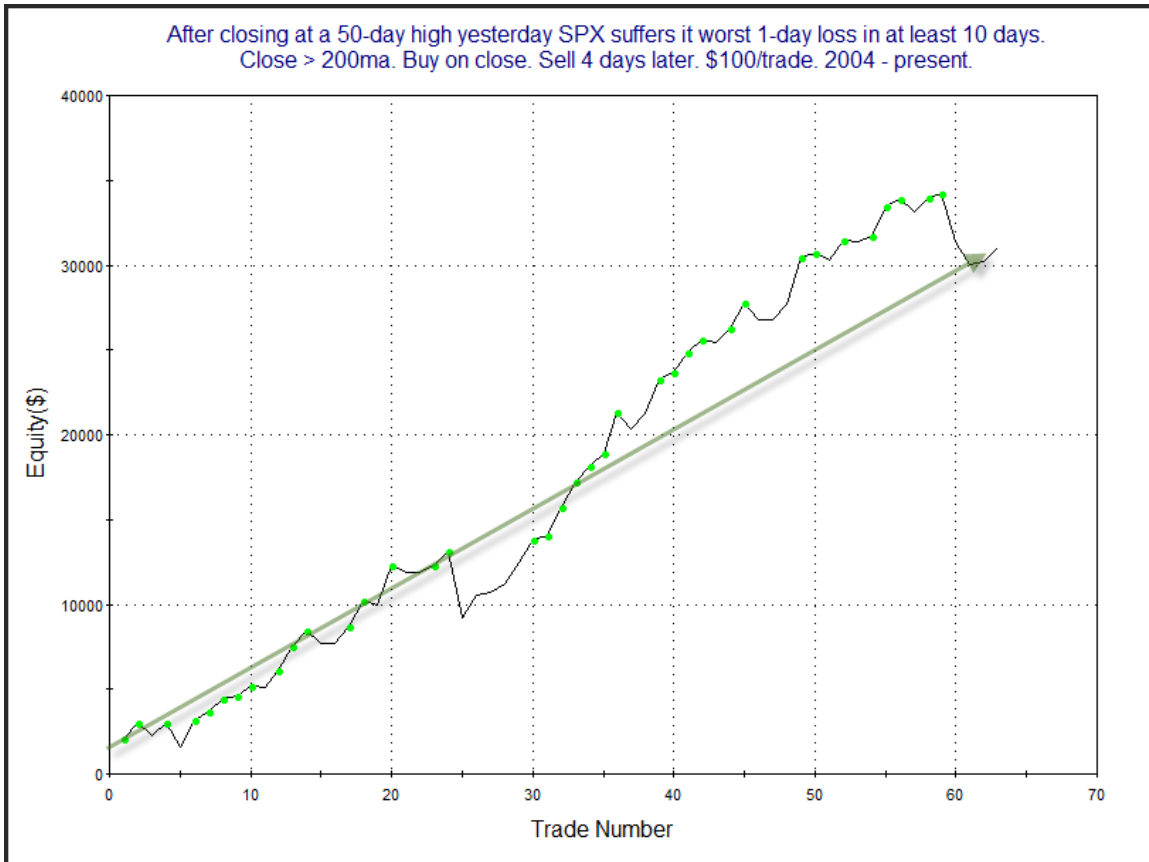
**The Evidence**

Tuesday was mixed with most indices showing losses. The SPX fell 0.1%, the NASDAQ dropped 0.4% and the Russell 2000 declined 0.6%. Breadth was negative as the NYSE Up Issues % was 42% and the Up Volume % came in at 39%. NYSE volume declined to the lowest level in a long time.

The pullback triggered a couple of studies that I found worth consideration. The one below was last seen in the 3/4/15 Letter. It looks at *relatively* large drops from intermediate-term highs. I have updated all the stats.

After closing at a 50-day high yesterday SPX suffers it worst 1-day loss in at least 10 days. Close > 200ma. Buy on close. Sell X days later. \$100/trade. 2004 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	24,058.28	59	40	19	67.80	1,265.57	3,149.37	-1,398.14	-3,454.00	0.91	1.91	407.77
4	31,010.60	63	45	18	71.43	1,026.63	2,725.38	-843.76	-3,895.76	1.22	3.04	492.23
3	23,385.25	64	46	18	71.88	813.96	2,192.40	-780.95	-1,808.21	1.04	2.66	365.39
2	13,564.75	65	36	29	55.38	810.58	2,437.50	-538.49	-1,777.55	1.51	1.87	208.69
1	5,810.45	65	37	28	56.92	527.42	1,521.72	-489.43	-1,354.59	1.08	1.42	89.39

Over the last 12 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



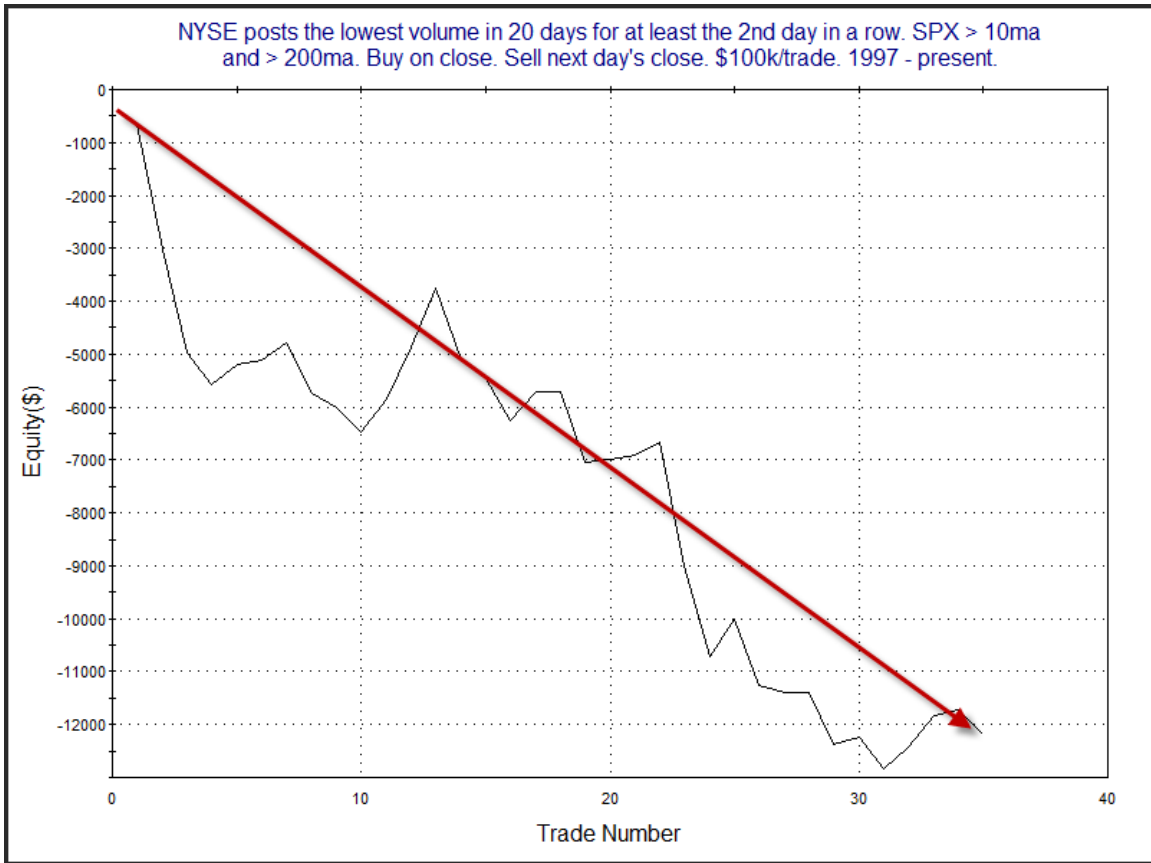
Despite the recent struggles, the steady upslope seems to confirm the bullish inclination.

Also interesting is that we have back-to-back days of extremely low volume. The study below is one I last looked at in the 8/26/14 letter. Results are updated.

NYSE posts the lowest volume in 20 days for at least the 2nd day in a row. SPX > 10ma and > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1997 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$12,184.45)	Profit Factor	0.35
Gross Profit	\$6,451.25	Gross Loss	(\$18,635.70)
Total Number of Trades	35	Percent Profitable	45.71%
Winning Trades	16	Losing Trades	19
Even Trades	0		
Avg. Trade Net Profit	(\$348.13)	Ratio Avg. Win:Avg. Loss	0.41
Avg. Winning Trade	\$403.20	Avg. Losing Trade	(\$980.83)
Largest Winning Trade	\$1,120.48	Largest Losing Trade	(\$2,378.78)

The numbers appear to suggest a substantial downside edge for the next day. To get a better idea of how the edge has played out over time I generated the equity curve.



The downslope has persisted for a long time and acts as some confirmation of the bearish edge. I also added this study to the Active List tonight.

I have updated the Aggregator chart below.



With tonight's study included the green Aggregator Line remained below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line inched back above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal turned flat at the close.

Based on the current active list, expectations are poised to turn positive on Wednesday. This could change if new bearish evidence emerges. The Differential Pivot will be 2171.47 on Wednesday. That is 0.4% above Tuesday's close. So for SPX to move from oversold to overbought versus expectations on Wednesday it will need to close up at least 0.4%.

The mild bearish edge from last night resulted in a mild decline on Tuesday. I did not take advantage of it, but the edge has already exhausted itself. With the Aggregator back to neutral I am not seeing good reason to get involved with new positions on Wednesday. I will wait another day to see what new evidence emerges.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 7/18 – bullish***

The intermediate-term outlook was last updated in the 7/18/16 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

**Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

***Open Catapult Triggers***

*none*

***Broad Market Large Cap CBI – 0***

**Additional New Trade Ideas**

*A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.*

**None tonight.**

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	\$24.70	\$30.03	21.58%		Aggressive VIX

With VIX futures expiring, contango is going to drop from 20% down to about 10%. This is still a strong number, and I will maintain my XIV position for the time being.

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